

Crescore



It's all about data

-A survey on Strategic Data Management-



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Executive summary

The survey “It’s all about data”, examines how Asset Management and Capital Market institutions working with market data view current processes and the quality of underlying data. The survey also aims to identify areas for improvement.

- Data Management is a hot area; all respondents have increased their focus on data and the majority (75%) either plan to implement or already have ongoing projects related to development.
- Respondents currently use many different internal and external sources, mainly because there is not one data source available that adequately serves all purposes.
- The absence of one comprehensive source means that data presently needs to be imported and validated from several vendors or sources in order for a company to achieve high-quality data; a complex and time-consuming process

- The large number of sources used and lack of cost-control raises questions about centralisation. The survey reveals that most respondents are considering trying to achieve centralisation of their Data Management process.
- Another very important concern is to increase management’s focus on and prioritisation of data, so as to be able to improve STP, and cost-cutting and avoid a long-term depletion of resources.

It is now time to raise Data Management from its position as a low priority area, raise the focus and realise that without well-functioning Data Management process, no business will do well in the long-run. A streamlined process for Data Management will also make it less costly to set up internal and external projects related to the Data Management process in the future.

Crescore would like to encourage businesses to change the way they view data – to see it as a strategic issue rather than an operational one – and to introduce the concept of strategic Data Management within their organisations.

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Preface

Interest in STP, risk and Data Management has grown within Asset Management and Capital Markets departments. We see several reasons for this, as presented below:

- Much of the information used by institutions to make investment decisions, for risk assessment and validation of compliance, includes advanced calculations that rely on the quality of the underlying market data on which they are based.
- In the past, a number of organisations have suffered heavy losses because of lack of good-quality data and risk control. This has forced financial institutions and regulators to act, demanding increased internal and external control.
- A well-functioning Data Management process is crucial for medium to large-sized Nordic financial institutions facing new challenges related to trading facilities, valuation of new products, risk control and validation of market prices.

- Data Management has traditionally involved many resources. By improving STP in the process, data quality can be improved and the operational risks inherent in manual processes can be reduced without needing to employ more staff.

The survey “It`s all about data” examines how Asset Management and Capital Market institutions working with market data view current processes and the quality of underlying data. The survey also aims to identify areas for improvement.

Crescore is a consulting company specialising in assisting organisations, within the financial services industry, to implement solutions to operational problems. Over the years we have worked with most of the major organisations in the Nordic area. For us, as well as for our clients, it is important that Crescore is at the frontline setting the trends.

Crescore would like to thank all those who have participated in this survey.

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About the survey

In 2008 Crescore conducted a survey about systems used in the front Office environment. One of the main conclusions drawn from the survey was the importance of high-quality market data in making the best use of the system. Crescore's survey revealed there was a significant room for improvement in this area. For this reason, Crescore designed a follow-up survey in 2009 – "It's all about data".

Objective

The objective of the survey was to identify current processes and problems, as well as new trends and needs related to Data Management. An additional aim was to examine the way companies are organised with regard to retrieving data in the Swedish and Norwegian markets as well as how they ensure data quality.

Areas covered

The survey examined the processes and systems used to support Data Management among leading Swedish and Norwegian Asset Managers and Capital Markets Institutions.

Execution

The survey It's all about data consisted of a questionnaire given to Asset Managers and Capital Markets institutions in the Swedish and Norwegian markets.

The respondents are active within selected institutions in Sweden and Norway. These institutions are among the leading firms in their fields and in their respective countries. Their assets under management (AUM) are EUR 3-100 billion with the average being 22 billion. Crescore contacted different departments for the purposes of the survey, such as, back office, middle office and Data Management groups. The questions used were intended to investigate processes, validation and quality aspects within the survey's broader objective.

The questionnaires were answered during personal interviews or via mail. The responses were consolidated into one database for validation and analysis purposes.



Trends and observations

In the future, the Data Management process and high-quality market data itself will become even more important for Capital Markets institutions due to the shift occurring in the financial market towards new trading sites, Central Clearing Partners, Best Execution and Smart Order Routing. Asset Managers on the other hand, will likely face their biggest challenges in the areas of static data, corporate actions and internal and external reporting.

A booming area

All companies that participated in the survey have observed an increased focus on data, both internally and externally. Internally, Crescore has observed increased interest from auditors and externally, from the Swedish and Norwegian FSA;s as well as from the European Union, which has released several publications on the subject. Crescore has also seen a significant increase in sanctions imposed by the Swedish FSA;s, when not having total control over changes in share holdings (flagging), which will likely also force clients to establish better Data Management processes to avoid further sanctions in the future.

Several respondents mentioned that the credit crisis has also increased the speed of change on

the market and assert a pressure from all stakeholders. Among other examples, we are now seeing increased interest from boards of directors in the way organisations should manage, control and validate data.

Strive for control

As was the case with the increased focus on data the majority of respondents in the Swedish Market import counterparty data automatically on a daily basis. A few of the Swedish organisations have ongoing projects that automate the daily feed of counterparty data, which is currently handled manually. This is interesting given that several discussions have been held regarding counterparty risk as a direct result of the credit crisis. Surprisingly and very interestingly, most of the respondents on the Norwegian market do not appear to be moving in the same direction; they are not importing counterparty data automatically and currently have no projects underway aimed at achieving automation. The main reason for this may be that they operate in a different market; more illiquid and with locally-based deals with well-known counterparts, in contrast with the more anonymous Swedish market.

It is important to obtain a holistic view of clients and the ways in which they are related. New projects start-ups in Sweden signal that companies are focusing on counterparty risk as an important tool in their Data Management process. The market has changed dramatically, different internal departments in different systems offering different products (FX, Equity, Bonds etc) to the same counterparty, create an unclear credit risk; a challenge to maintaining control at a specific time regardless of the size of the counterparty. Lessons learned from Lehman Brothers showed a time consuming and inadequate process for clients when calculating their actual credit loss - an example of lack of control.

Focus is crucial

The survey shows that most respondents have more than one external source or vendor for reasons of duality and for use of information. Using multiple sources (primary/secondary) is a way to secure and validate data. Though Asset Managers have access to several sources such as Bloomberg and Reuters, Crescore's experience is that they do not have a process for validating their figures. The fact that they use a wide number of different external and internal information sources is indicative of the absence of a data source that is adequate for all purposes. Data taken from multiple vendors or sources needs to be imported and validated in order to achieve high-quality data. Thus we might ask: is there room for

improvement on the vendor side? Or is it so that the need for data is so complex that a single source is unable to serve all purposes? On the other hand, if one single source did exist, duality control would be lost.

Another surprising observation is the fact that while most of the respondents explained that their organisation is subject to an ongoing review of its cost situation, they were nevertheless unaware of the actual cost of the Data Management process. The reason for this may be that the cost of data is not commonly known within the organisation or that the actual cost is difficult to break down.

From operational to strategic

The number of systems used and the lack of cost-control raise the question about centralisation. Crescore sees the potential for improvement in data quality and cost-reduction through centralising each organisation's Data Management process.

Importing data may become problematic for organisations that are not sufficiently coordinated. Questions may arise about independent control and duality, as well as if different departments within the same organisation should perform the same tasks or not.



There is a general need to streamline work relating to Data Management functions. Most respondents are in favour of centralising the Data Management function, given that at present, there are often several departments working on similar tasks. The concept of centralisation is highly relevant in today's market, to be able to rationalise the number of systems used and to streamline pre- and post-trade activities for improved STP.

Data is crucial to an organisation, whether viewed from a back office or front office perspective. A well-functioning Data Management process will cut costs, reduce resource expenditure and improve business for the front office side of the organisation. As such, it is extremely important to stress the importance of obtaining high-quality data and of increasing management's focus. As mentioned earlier, the focus needs to shift from viewing data as an operational issue to viewing it as a strategic one - "strategic Data Management".



Survey results

The survey results were divided into three main areas:

1. Data on a daily basis
2. Market sources
3. An ongoing battle

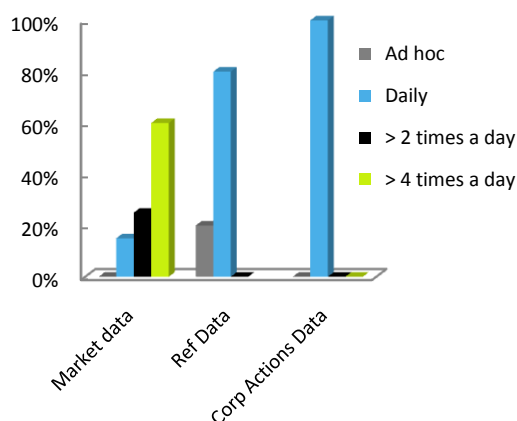
1. Data on a daily basis

Overall, the data-retrieval process is similar for all respondents. Most data is imported automatically by designated groups within the back or middle offices. Some companies have central data units that import all data and which are responsible for distributing it to other parts of the organisation. Generally speaking, market data and corporate actions are handled by the back office, whereas reference data is handled by the middle office. As expected, we observe similarities in the companies' allocation of work tasks for middle office and back office departments.

However, differences were noted in the frequency with which different kinds of data are retrieved as shown in the figure to the right. As regards reference data, a significant number of all companies surveyed automatically retrieve

new data on a daily basis. Other respondents request and search for reference data ad hoc.

How often do you import figures?

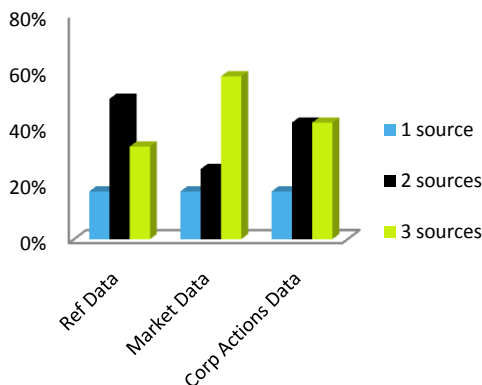


Generally speaking, Capital Markets institutions have better access to real time data than Asset Managers and this was reflected in the responses received, as expected. As was further expected most companies realise the importance of having updated prices, so as to be able to capture every instance of change in today's volatile markets, a factor that is crucial to the company's market exposure.

2. Market sources

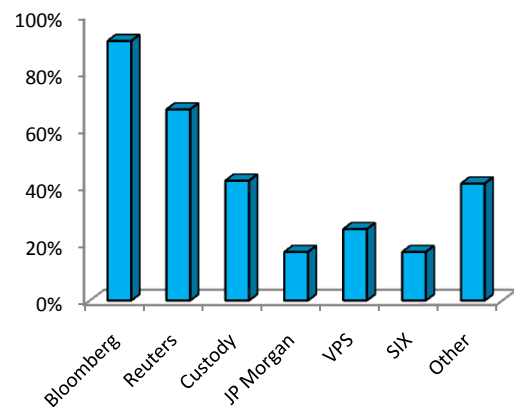
The survey revealed that companies commonly use two to three different systems for retrieving data. The need for multiple systems may be explained by a lack of depth or information provided by the vendors. On reflection, this may also be because there is currently no single system able to provide all kinds of data. Managing different types of data is time-consuming and costly, but is also crucial for success, which is why validation is so important.

Number of sources used



In harmony with the common perception, the survey confirms that two of the market's largest system vendors are most often used to obtain market data; Bloomberg and Reuters. Those surveyed commonly use both systems. For corporate actions data the majority of respondents use Bloomberg together with other complementary solutions (mostly custody systems) as sources for their data collection. This was in line with expectations.

Which systems/sources do you use?



According to respondents, their main reasons for using Bloomberg and Reuters are that they are reliable, meet demands and standards and most likely because there are few plausible alternatives. The companies' responses also reveal that they use these systems in the front office and that the systems have been used for a long time, a factor which naturally influences their choice of system. One might query how this rationale ties in with the notion of cost-control, however, given that most of the respondents pay a high price to use these two, dominant systems, perhaps without questioning their decision or searching for other solutions.

Those respondents who were aware of the cost situation for data gave that license cost as between EUR 40,000 and EUR 180,000 per year. Given that these licenses are expensive, their cost is frequently reviewed and alternative options are routinely considered. Some companies have found a solution to the cost problem in sharing licenses while others are currently looking at alternative ways of retrieving data.

3. An ongoing battle

Automatic data-retrieval and STP are commonly cited as high-priority areas for improvement. The companies feel themselves forced to act to improve the situation, given that there is a significant risk inherent in manual handling, which is still widely practiced despite the fact that it is time-consuming and in spite of the availability of modern systems and functionalities. In the light of this, it is quite interesting to note that about half of all respondents say they would like to see some sort of improvement in current Data Management processes.

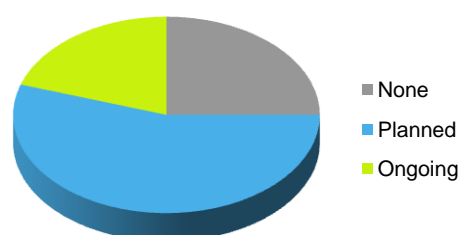
The degree of room for improvement differs between the respondents, as shown in the figure to the right. It is interesting to note that the majority of respondents have plans for some sort of development. It is also noteworthy that several respondents have planned projects aimed at achieving quality assurance for both reference and market data.

The majority of respondents occasionally run probability checks and has scheduled rules and schemes in place for performing validation in order to capture abnormal variations and to validate data. However, one problem with this method is that the complexity and volume of prices; makes it difficult to check them in real-time.

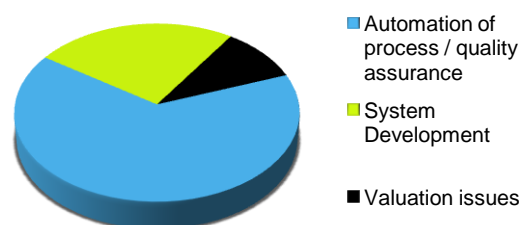
A number of respondents point out that one of the major problems they face relates to illiquid products on the interest side, for which there are a lack of adequate price updates. Other respondents mention the valuation of complex securities as a highly prioritized area. Ideally, the goal is to find better valuation models and add new functionality to the existing system solution. Another problem faced is the absence of a unique ticker for securities (ISIN, RIC,

SEDOL etc), which causes difficulties in performing daily work.

Room for improvements



Prioritized Areas



A short summary of the main points from the survey follows;

- Increase focus on Data Management process within the organisation
- Increased focus will ultimately lead to improved STP, thereby cutting costs and counteracting the loss of resources
- Efforts should be made to centralise the Data Management process

We must also remember that there is only a downside; a well functioning Data Management process is one you never hear anything about.

ABOUT CRESCORE

Crescore is a financial services consulting company that works primarily with leading financial institutions and insurance companies in northern Europe. Through our offices in Copenhagen, Oslo and Stockholm, we assist the most demanding and challenging clients within the financial industry.

With Crescore's unique competence in the financial markets and extensive expertise in financial processes, regulations, and systems, we provide our clients with solutions and help them to reach their goals and manage their challenges.

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